

LOUISIANA STATE UNIVERSITY
AND RELATED CAMPUSES
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA



MANAGEMENT LETTER

ISSUED MAY 10, 2006

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$14.58. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 3478 or Report ID No. 05202683 for additional information.

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STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

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April 27, 2006

**LOUISIANA STATE UNIVERSITY BOARD OF SUPERVISORS,
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AND LOUISIANA STATE UNIVERSITY AT EUNICE
LOUISIANA STATE UNIVERSITY SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2005, we considered the internal control over financial reporting for the LSU Board of Supervisors, LSU and A&M College (LSU), LSU Agricultural Center, Pennington Biomedical Research Center, Paul M. Hebert Law Center, LSU at Alexandria, and LSU at Eunice (hereafter referred to as LSU and Related Campuses); we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested LSU and Related Campuses' compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered LSU and Related Campuses' internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested LSU and Related Campuses' compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by U.S. Office of Management and Budget Circular A-133.

The annual financial information provided to the Louisiana State University System by LSU and Related Campuses is not audited or reviewed by us, and, accordingly, we do not express an opinion on that financial information. LSU and Related Campuses' accounts are an integral part of the Louisiana State University System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior audit report on LSU and Related Campuses for the year ended June 30, 2004, we reported a finding relating to weaknesses in controls over petty cash. That finding has been resolved by management.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2005.

Unlocated Movable Property

LSU did not have adequate internal control over movable property. As required by state movable property regulations, LSU conducted a physical inventory and reported unlocated movable property items totaling \$6,371,247. Of that amount, items totaling \$1,008,982 were removed from the property records because they had not been located for the three previous consecutive years. Of the unlocated property reported on LSU's physical inventory certification, the amount of unlocated computers and computer-related equipment totaled \$3,037,072. The certification of property inventory disclosed \$297,139,831 in total movable property administered by LSU. LSU submitted its annual certification of property inventory to the Louisiana Property Assistance Agency (LPAA) on January 3, 2005.

Good internal control and the Louisiana Administrative Code prescribe that efforts should be made to locate all movable property items for which there are no explanations available for their disappearance. Assets should be adequately monitored to safeguard against loss or theft, and periodic counts of property inventory, as well as the search for missing items should be thorough.

Failure to thoroughly secure, locate, and account for movable property increases the risk of loss arising from unauthorized use of the property and could subject LSU to noncompliance with state laws and regulations. Also, the risk exists that sensitive information could be improperly retrieved from the missing computers and/or computer-related equipment, which could compromise LSU's data integrity.

Management of LSU should strengthen its internal controls over movable property, including the procedures for securing its movable assets and conducting its physical inventory, and should devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and outlined a plan of corrective action. Management also stated that unlocated items costing \$1,042,729 were subsequently accounted for (see Appendix A, page 1).

No Formal Disaster Recovery Plan

LSU does not have a written, comprehensive disaster recovery/business continuity plan. Good internal control requires that the university develop a written and functional disaster recovery plan that will allow for continued operation of critical services in the event of an unexpected interruption. In addition, the state Office of Information Technology Policy No. 11 requires each state agency to develop, test, and maintain a disaster recovery/business continuity plan that is designed to ensure the availability of

mission-critical services and functions in the event of a disaster or unscheduled event that would impact the agency's information technology and telecommunications systems.

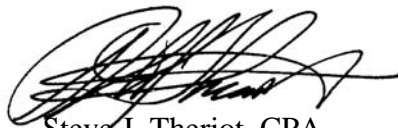
Although the university has taken steps to ensure that its data files and computer programs are backed up and stored at an offsite facility, current policies and procedures do not include a written, comprehensive plan related to disaster recovery/business continuity. Failure to develop, implement, and test a comprehensive disaster recovery plan increases the risk that in the case of a disaster, there will be an untimely or excessive delay in processing critical data and that critical data including public records may be lost.

Management should take the necessary measures to develop and implement a written, comprehensive disaster recovery/business continuity plan to allow critical operations to be reestablished and data to be restored from an alternative location within an acceptable time frame should a disaster occur. In addition, the plan should be periodically tested and updated as necessary to ensure that it works as intended in emergency situations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the university. The varying nature of the recommendations, their implementations costs, and their potential impact on the operations of the university should be considered in reaching decisions on courses of action.

This letter is intended for the information and use of the university and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", is written over a horizontal line.

Steve J. Theriot, CPA
Legislative Auditor

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LSU&R05

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Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



LOUISIANA STATE UNIVERSITY
AND AGRICULTURAL AND MECHANICAL COLLEGE

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

March 27, 2006

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College for the fiscal year ended June 30, 2005, we wish to respond to the audit finding concerning unlocated moveable property. We concur with your finding in general. As required by state regulations, after conducting a physical inventory, LSU did report four years of unlocated property items originally costing \$6,371,247. In accordance with state regulations, and with the approval of the Louisiana Property Assistance Agency (LPAA), the University then removed items originally costing \$1,008,982 from our property records. These items had been held in our "suspense" file for three years, while we continued our attempts to locate or properly account for them. The original cost of the remaining unlocated items was \$5,362,265. With respect to these remaining items, a current analysis of our moveable property detail records produces the following results:

- Items costing \$1,042,729 have been subsequently properly accounted for, leaving a balance of items originally costing \$4,319,536 remaining unlocated.
- This remaining unlocated balance includes certain equipment items originally costing \$5,000 or more individually that had been capitalized and depreciated subsequent to their purchase, with depreciation calculations made by LSU using the state approved guidelines for useful lives. The original cost of these items was \$1,409,044, and the book value net of depreciation was only \$67,195.
- The remaining unlocated balance also includes items costing less than \$5,000 individually that were expensed for accounting purposes, not capitalized and depreciated, for which the book value does not exist. The original cost of these items was \$2,910,492. However, \$1,343,817 of these items had been purchased in 1995 or earlier.
- The total inventory value reported by the University, net of the oldest suspense file items removed with the approval of the LPAA, was \$296,130,849. Excluding the items that were subsequently properly accounted for, the depreciation taken on capitalized items, and the expensed items purchased in 1995 or prior, the remaining unlocated items amount to \$1,633,870. This amounts to only slightly more than one-half of one percent of the total moveable property inventory managed by LSU.
- The audit finding also indicates that \$3,037,072 of computers and computer-related equipment was reported as unlocated. However, after the removal of the oldest suspense file items from our property records, the balance of computers and related equipment amounted to \$2,462,685. Of this amount, \$1,047,438 was more than 10 years old, \$739,648 was 8-10 years old, and \$402,646 was 6-7 years old. Only \$272,953 of the unlocated computer and related items were aged 5 years or less. Moreover, the total book value was only \$4,154 for all capitalized computers and related equipment reported as unlocated.

We believe the above data supports the conclusion that LSU is properly managing its inventory of moveable equipment having remaining useful value. However, we also recognize our responsibility to properly account for all equipment owned by the University, including those items having little or no remaining value. We believe many unlocated items result from useless equipment being discarded or several old items being cannibalized by departmental staff to produce one working item, without proper reporting to our administrative offices. We are reviewing our inventory taking and record keeping procedures, and we intend to initiate aggressive changes as appropriate to ensure better results in our inventory reporting in the future.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Sean O'Keefe



LOUISIANA STATE UNIVERSITY
AND AGRICULTURAL AND MECHANICAL COLLEGE

Office of the Vice Chancellor for Finance and Administrative Services and Comptroller

March 24, 2006

Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot,

In conjunction with the legislative audit of LSU and A&M College for the fiscal year ended June 30, 2005 we wish to respond to the audit finding concerning our disaster recovery plan. We concur with your finding in general. However, LSU has made and continues to make numerous additional improvements to our disaster recovery and business continuity plan. Since this finding was addressed for the fiscal year ended June 30, 2002, significant progress has been made in addressing this ongoing issue, including the following:

- A contingency plan has been developed to provide the ability to meet payroll obligations in the event of a disaster.
- Off-site storage of mainframe backup tapes is now more formalized, with the frequency of mainframe backups rotated off-site daily.
- A remote backup server has been installed off campus at the Information Services Building (ISB) for all enterprise level non-mainframe servers housed in our Computing Center.
- A group of servers has been installed in another campus building, beyond the zone of a localized disaster to our Computing Center, to host redundant and standby services for a small but critical portion of the production computing environment.
- LSU's first Chief Information Officer was appointed in April 2005. He has designated a full-time, senior-level Disaster Recovery Business Continuity Planning professional, who has been diligently reviewing ITS strategies and investigating additional methods for ensuring continuity of operations by the University with IT support.
- A "lifeboat" strategy or critical set of tools to facilitate recovery of high priority portions of the LSU IT infrastructure is currently being developed.
- An informal disaster response plan has been developed, and it will form the basis for a more formal IT disaster recovery plan document.

The University is currently working to craft a proposal, based upon existing plans and strategies and related analysis currently underway, that will outline additional steps (including requisite funding investments) LSU should advance in regard to preparing its IT infrastructure and environment, and information resources and systems, for continuity in the face of a disaster to the central IT facilities, the campus, and the broader Baton Rouge area. This plan will draw heavily on the lessons learned by our colleagues at Louisiana institutions most devastated by the 2005 hurricanes.

Please let me know if anything further is needed.

Sincerely,

Jerry J. Baudin
Vice Chancellor for Finance and Administrative Services
and Comptroller

xc: Chancellor Sean O'Keefe